

Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 PA-01 PRS-01 DOTE-00 INT-05 GSA-02
/097 W

-----210926Z 021376 /20

P R 210835Z MAR 77

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 2454

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY LUSAKA

AMEMBASSY PRETORIA

C O N F I D E N T I A L KINSHASA 2515

E.O. 11652: GDS

TAGS: EGEN MOPS, PFOR, PFIN

SUBJ: -- POSSIBLE EFFECTS ON THE ECONOMY SHABA INVASION

1. SUMMARY: THE INVASION OF SHABA PROVINCE RAISES THE POSSIBILITY OF ECONOMIC DISRUPTIONS THAT WOULD SERIOUSLY UNDERMINE THE STRENGTH OF THE GOZ. DISRUPTIONS OF ECONOMIC LIFE EXPERIENCED SO FAR -- THE REQUISITION OF SCARCE TRUCKS, RAIL CARS, AND FUEL SUPPLIES FOR MILITARY USE -- HAVE NOT YET HAD A SIGNIFICANT IMPACT ON PRODUCTION. HOWEVER, IF THE PRESENT INSURGENCY CONTINUES, PRODUCTION AND EXPORTS WOULD EVENTUALLY FALL SUBSTANTIALLY. IF THE MINERAL EXPORTS OF THE SHABA COPPER BELT WERE COMPLETELY INTERRUPTED, THE GOZ WOULD BE DENIED OVER SEVENTY PERCENT OF ITS NORMAL EXPORT RECIEPTS. SPECIAL PAYMENT MECHANISMS WOULD INITIALLY CUSHION THIS EFFECT FOR SEVERAL WEEKS OR POSSIBLY MONTHS, BUT IF THE INTERRUPTION WERE SUSTAINED, THE GOZ WOULD FIND IT DIFFICULT TO SURVIVE WITHOUT MASSIVE EXTERNAL FINANCIAL HELP. END SUMMARY.

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2. THE INCURSION BY FORCES IDENTIFIED AS KATANGAN GENDARMES INTO SOUTHWESTERN SHABA HAS LED THE GOZ TO COMMANDEER TRUCKS, RAIL CARS, AND JET FUEL STOCKS IN SHABA FOR USE IN THE MOVEMENT OF TROOPS AND MILITARY SUPPLIES. ACCORDING TO OUR CONSULATE IN LUBUMBASHI, THESE ACTIONS HAVE NOT YET RESULTED IN ANY SUBSTANTIAL CUT IN THE PRODUCTION OF GECAMINES, THE NATION'S LARGEST COPPER PRODUCER. WE EXPECT THAT THE SAME PROBABLY HOLDS TRUE FOR OTHER

IMPORTANT MINERAL PRODUCERS IN THE COPPER BELT EXCEPT FOR SMK,
THE MANGANESE PRODUCER IN KISENGE, WHICH HAS FALLEN TO INVADING FORCES.

SMK, HOWEVER, HAS BEEN OF MARGINAL ECONOMIC IMPORTANCE SINCE THE CLOSURE
OF THE BENGUELA RAILROAD IN 1975.

3. HOWEVER, IF THE PRESENT INSURGENCY CONTINUES, IMPORTANT
ECONOMIC DISLOCATIONS WILL CERTAINLY BE FELT. OVER THE PAST
TWO YEARS, MINERAL PRODUCTION IN THE COPPER BELT (ROUGHLY THE
AREA FROM KOLWEZI - LIKASI - LUBUMBASHI) HAS BEEN HINDERED BY SHORT
FUEL SUPPLIES AND INADEQUATE TRANSPORT LINKS TO THE EXTERIOR.
CONTINUED MILITARY USE OF TRUCKS, RAIL CARS, AND FUEL SUPPLIES
NORMALLY USED FOR ECONOMIC PURPOSES WOULD SOON BRING A REDUCTION
OF PRODUCTION AND EXPORTS FROM THE COPPER BELT AND ELSEWHERE.
FURTHERMORE, WORKER DISCIPLINE AND PRODUCTIVITY WOULD BE DIFFICULT
TO MAINTAIN IN THE FACE OF PERSISTENT CONFLICT IN THE NEARBY
REGION OF SOUTHWESTERN SHABA.

4. SUSTAINED CONFLICT IN SOUTHWESTERN SHABA WOULD DENY THE GOZ
THE OPPORTUNITY TO ATTAIN THE BUDGETARY AND BALANCE OF PAYMENTS
TARGETS THE IMF CONSIDERS NECESSARY FOR THE STABILIZATION OF THE
ECONOMY. WITH THE ATTENTION OF KEY GOZ DECISION-MAKERS RIVETED
ON THE MILITARY SITUATION, WE CANNOT EXPECT GOZ OFFICIALS TO GIVE
THE IMF STABILIZATION MEASURES THE ATTENTION NEEDED FOR EFFECTIVE
IMPLEMENTATION.

5. SHOULD THE CONFLICT BRING A CESSATION OF ECONOMIC ACTIVITY
OR THE LOSS OF THE COPPER BELT TO THE GOZ, THE GOZ WOULD BE
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DENIED ITS PRIMARY SOURCE OF FOREIGN EXCHANGE. COPPER BELT
MINERAL EXPORTS AMOUNTED TO JUST OVER ONE BILLION DOLLARS -- ABOUT
SEVENTY-ONE PERCENT OF TOTAL EXPORTS -- IN 1974, THE LAST YEAR FOR
WHICH COMPLETE STATISTICS ARE AVAILABLE. THE BREAKDOWN OF THESE
REVENUES WAS AS FOLLOWS:

COPPER \$934 MILLION

COBALT \$68 MILLION

ZINC \$22 MILLION

OF THESE RECEIPTS, ABOUT \$952 MILLION WAS GENERATED BY GECAMINES.
IN 1976, ZAIRE'S DEPENDENCE ON THE COPPER BELT REMAINED SUBSTANTIAL.
WE ESTIMATE THAT EXPORTS OF COPPER, COBALT AND ZINC FROM THE SHABA
COPPER BELT PROBABLY CAME TO AROUND DOLLARS SEVEN HUNDRED FIFTY
MILLION, OR OVER SEVENTY PERCENT OF THE TOTAL EXPORT EARNINGS OF
BETWEEN DOLLARS ONE TO ONE POINT ONE BILLION.

6. SPECIAL PAYMENT MECHANISMS COULD INITIALLY CUSHION THE EFFECT

ON THE GOZ OF AN INTERRUPTION OF COPPER BELT EXPORTS. SGB, THE BELGIAN HOLDING COMPANY WHOSE SUBSIDIARY, SGM, HAS PRIMARY RESPONSIBILITY FOR MARKETING GECAMINES PRODUCTION, LOANS ZAIRE SEVENTY PERCENT OF THE AVERAGE LME PRICE FOR THE PREVIOUS THREE MONTHS AT THE MOMENT OF EMBARCATION AT AN AFRICA PORT. THE REMAINING THIRTY PERCENT IS PAID WHEN THE COPPER IS SOLD BY SGM. AT ANY GIVEN MOMENT, THERE WOULD PROBABLY BE SIX TO

EIGHT WEEKS OF COPPER "IN THE PIPELINE", EITHER ON THE VOIE NATIONALE OR ON THE SOUTHERN ROUTE. IN THE EVENT OF AN INTERRUPTION, THE GOZ COULD PROBABLY EXPECT PAYMENT FROM SGM FOR THESE SHIPMENTS AND THUS MAINTAIN ITS NORMAL FOREIGN EXCHANGE INFLOWS FOR ABOUT TWO MONTHS. SHOULD THE INTERRUPTION OF PRODUCTION LAST BEYOND TWO MONTHS, THE GOZ WOULD FIND IT VERY DIFFICULT TO SURVIVE WITHOUT MASSIVE EXTERNAL FINANCIAL HELP. CUTLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, PROVINCE, SECESSION, ECONOMIC ESTIMATES, INVASIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977KINSHA02515
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770096-0013
Format: TEL
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770340/aaaabies.tel
Line Count: 130
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4abcd4b4-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3050927
Secure: OPEN
Status: NATIVE
Subject: -- POSSIBLE EFFECTS ON THE ECONOMY SHABA INVASION
TAGS: EGEN, MOPS, PFOR, EFIN, CG
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/4abcd4b4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009